

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017 SESSION

BAC1634 – FINANCIAL ACCOUNTING & REPORTING 1

(All Sections / Groups)

8 OCTOBER 2016
9:00 AM – 12:00 NOON
(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 7 pages with 5 Questions only.
2. Answer **ALL** Questions in the answer booklet provided.

QUESTION 1

- i) The conceptual framework for financial reporting is a set of principles which underpin the foundations of financial accounting. The conceptual framework sets out one important underlying assumption for financial statements that is the going concern concept.

Required:

Explain what do you understand by the going concern concept.

(2 marks)

- ii) The conceptual framework states that qualitative characteristics are the attributes that make the information provided in the financial statements useful to users. There are two fundamental qualitative characteristics (relevance and faithful representation) and four enhancing qualitative characteristics.

Required:

State and explain briefly the four enhancing qualitative characteristics.

(8 marks)

- iii) For each of the following independent situations, discuss how satisfying one characteristic may involve not satisfying another.

a) Berlian Bhd is negotiating with Bank Bumibumi Bhd for a significant loan. The bank requires a set of financial statements be provided as quickly as possible after the year-end . Because invoices from many of Berlian's suppliers are mailed several weeks after inventory is received, Berlian is considering estimating the amounts associated with those liabilities to be able to prepare its financial statements more quickly.

b) Doktor Bhd produces medical equipment to various hospitals. The company provides a warranty guaranteeing the performance of its equipment. Recently one of its main surgical equipment used in the operation theatre at Hospital Anggun was malfunction. The incidence occurred during a surgery performed on a patient. The incidence had caused death to the patient. At year-end, Doktor's auditor suggested the company to disclose the potential liability in the notes to the financial statements. Directors of Doktor Bhd, however, believe that the surgical equipment can be repaired and that disclosure of a contingency such as this would unnecessarily bias the financial statements.

(5 marks)

Continued...

iv) For each of the following independent situations, discuss the accounting assumptions been violated.

- a) Melur Bhd is experiencing a drastic reduction in its revenue due to malfunction of four of its five machineries. As a result, the directors of the company has decided, rather than produce financial statements at the end of the fiscal year, as is traditionally done, the directors has elected to wait until next year and presents results for a two-year period.
- b) The operations of Comel Finance Bhd are being evaluated by the government officials. During their investigations, the government officials have discovered that numerous loans approved by the top management of Comel Finance Bhd were unwise and have seriously endangered the future existence of Comel Finance.

(5 marks)

(Total: 20 marks)

QUESTION 2

The following is the draft financial statements for Mawar Bhd prepared by the assistant accountant for you, the accountant of the company, to review.

Mawar Bhd Statement of Comprehensive Income for the year ended 30 September x6

	RM'000
Revenue	
Cost of sales	37,000
Expenses	(14,000)
Investment income	(10,000)
Tax paid	500
Dividends paid on ordinary shares	(2,000)
Dividends paid on redeemable preference shares	(2,000)
Profit after tax	(1,500)
	8,000

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Mawar Bhd
Statement of Financial Position
as at 30 September x6

	RM'000
Property, plant and equipment	44,000
Current assets	15,000
	59,000
Share capital	15,000
Share premium	10,000
Redeemable preference shares	3,000
Retained profits	12,000
Liabilities	19,000
	59,000

Additional information:

- 1- Revenues include the proceeds from the sale of plant of RM1,000,000 and revaluation surplus of property of RM2,000,000. The carrying amount of the plant disposed is RM500,000 which is included in cost of sales. Depreciation is charged in cost of sales.
- 2- Obsolete inventory included in the cost of sales is RM800,000.
- 3- Expenses comprise:

	RM'000
Administrative expenses	2,400
Selling and distribution expenses	5,100
Directors' emoluments	1,200
Auditors' fees	500
Interest on loan	800
- 4- Tax expense for the year is RM2,100,000.
- 5- Non-current assets comprise property of RM32,000,000, plant of RM10,000,000 and equipment of RM2,000,000.
- 6- Current assets comprise trades receivables of RM5,000,000, cash at bank of RM4,600,000 and inventory of RM5,400,000 inclusive of obsolete inventory of RM800,000.

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- 7- Liabilities comprise non-current liabilities of loan stock of RM16,000,000 and trade payables.
- 8- Share capital comprises 15,000,000 ordinary shares. The redeemable preference shares were issued on 1 October x5 and are redeemable at a premium of 10 percent. The effective dividend rate is 8 percent.

Required:

Redraft the financial statements in compliance with MFRS 101 *Presentation of Financial Statements*. (The financial statements should include statement of comprehensive income, statement of changes in equity and statement of financial position)

(20 marks)

(Total: 20 marks)

QUESTION 3

- i) Tembikai Bhd operates as a shipping company transporting cargo from Malaysia to various destinations overseas. Its financial year ends on 31 December.

On 30 December 2015, one of its ships suffered an oil leak 15 kilometres off the shore of Thailand. Due to strong currents, the oil was washed ashore and contaminated 3 kilometres of the beach. Thailand has no environmental regulation on contamination of its shores. However, the company is very well known as an advocate of environmental preservation and has an excellent track record of cleaning up all contamination that it causes. As at 31 December 2015, it is estimated that the clean-up of the contaminated beach would costs the company RM500,000.

Required:

Advise Tembikai Bhd whether it should treat the cost for cleaning the oil spill contamination as a 'provision' or a 'contingent liability' in order to comply with the requirements of MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

(5 marks)

- ii) DEF Bhd has two options. It can buy an asset for cash at a cost of RM22,840 or it can lease it by way of a finance lease. The terms of the lease are as follows:

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- 1) Primary period is for four years from 1 July 2014 with a rental of RM8,000 per annum payable on 30 June each year.
- 2) The lessee has the right to continue to lease the asset after the end of the primary period for an indefinite period, subject only to a nominal rent.
- 3) The lessee is required to pay all repair, maintenance and insurance costs as they arise.
- 4) The interest rate implicit in the lease is 15%.

The lessee estimated the useful life of the asset to be ten years. Depreciation is provided on a straight-line basis.

Required:

- a) Explain briefly how the above lease should be classified in accordance with MRS 117 *Leases*.
(3 marks)
- b) Calculate the amounts to be shown in the Statement of Comprehensive Income for the year ended 30 June 2015 and Statement of Financial Position as at that date, assuming the finance lease option is taken.
(12 marks)

(Total: 20 marks)

QUESTION 4

- i) Anggerik Bhd has an authorized share capital of 80,000,000 ordinary shares of RM1 each; of which 40,000,000 have been issued and fully paid. On 1 April 2015, Anggerik offered for sale 30,000,000 ordinary shares at RM 1.80 per share payable as follows:

On application	RM 1.00 (including premium)
On allotment	RM 0.40
On first and final call	RM 0.40

On 15 April 2015, the application list was closed and 50,000,000 applications were received. Applications for 10,000,000 shares were unsuccessful and the cash paid in respect of such shares was returned. All other applications were reduced proportionately, the balance of application money being applied to the amount due on allotment.

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The balance due on allotment was received on 31 May 2015 except in the case of one holder of 2,000,000 shares who paid the call money along with the allotment money. Another holder of 1,000,000 shares did not pay the allotment money as well as the 1st and final call money. The remaining shareholders paid the call due on 15 July 2015.

Required:

- a) Journalised the above transactions
(14.5 marks)
 - b) Prepare the statement of financial position extract as at 31 December 2015.
(2 marks)
- ii) With reference to MFRS 110 *Events After the Reporting Period*, what is the definition of events after the reporting period and what are the two types of the events?
(3.5 marks)

(Total: 20 marks)

QUESTION 5

- i) Due to rising property prices, Dahlia Bhd decided to revalue its land and buildings on 1 April 2015 to their market value. The values were confirmed at that date as land RM16 million and buildings RM52.2 million with the buildings having an estimated remaining life of 18 years at the date of revaluation. Dahlia Bhd intends to make a transfer from the revaluation surplus to retained earnings in respect of the annual realisation of the revaluation surplus. Ignore deferred tax on the revaluation.

Plant and equipment is depreciated at 15% per annum using the reducing balance method. No depreciation has yet been charged on any non-current asset for the year ended 31 March 2016. All depreciation is charged to cost of sales. There were no acquisitions or disposals of non-current assets during the year. Year end of Dahlia Bhd is 31 March.

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	RM '000
Land and buildings at cost (land element RM14 million)	64,000
Plant and equipment at cost	82,700
Accumulated depreciation/amortisation at 1 April 2015:	
buildings	5,000
plant and equipment	36,700

Required:

Discuss the accounting treatment on the above transaction in compliance to the MFRS 116 *Property, Plant and Equipment*.

(10 marks)

- ii) ABC Bhd is listed on the Bursa Malaysia and operates in the construction sector. On 1 January 2015, ABC had 5 million RM1 ordinary shares in issue. On 1 March 2015, ABC made a 1 for every 2 bonus issue from the share premium account. On 1 August 2015, ABC issued 3 million RM1 ordinary shares for RM4.10 each at full market price.

ABC Bhd generated a profit after tax of RM3.8 million for the year ended 31 December 2015.

The basic earnings per share for the year ended 31 December 2014 was 48.2 sen.

At 1 January 2015, the ordinary shareholders of ABC held options to purchase 1 million RM1 ordinary shares at RM3.10 per share. The options are exercisable between 1 January 2017 and 31 December 2018. No further options were issued in the year. The average market value of one RM1 ordinary share of ABC during the year ended 31 December 2015 was RM4.00.

Required:

- a) Calculate the basic earnings per share to be reported in the financial statements of ABC Bhd for the year ended 31 December 2015, including the comparative figure, in accordance with the requirements of MFRS 133 *Earnings per Share*.

(4 marks)

- b) Calculate the diluted earnings per share for the year ended 31 December 2015, in accordance with the requirements of MFRS 133 *Earnings per Share*. (A comparative figure is NOT required).

(6 marks)

(Total: 20 marks)

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